J. C. Penney Company, Inc.
1979 Annual Report

This is JCPenney.

JCPenney is a major retailer, with stores in all 50 states, Puerto Rico, and Belgium. The dominant portion of the Company's business consists of providing merchandise and services to consumers through stores, including catalog operations. The Company markets apparel, home and automotive products, drug store merchandise, and insurance.

Table of Contents

Annual Meeting

Our Annual Meeting of Stockholders will be held at 10 A.M., Monday, May 19, 1980, at the Fairmont Hotel, 950 Mason Street, San Francisco, California. You are cordially invited to attend. A proxy statement, including a request for proxies, will be mailed to stockholders on or about April 9, 1980.

J. C. Penney Company, Inc.
1979 Annual Report

Financial Highlights (In millions except per share data)

For the Year	1979	1978
Sales	**$11,274**	$10,845
Per cent increase from prior year	**4.0**	15.8
Net income	**$ 244**	$ 276
Per cent decrease from prior year	**(11.6)**	(4.8)
Per cent of sales	**2.2**	2.5
Per cent of stockholders' equity	**10.3**	13.0
Net income per share	**$ 3.52**	$ 4.12
Dividends per share	**$ 1.76**	$ 1.76
Capital expenditures	**$ 358**	$ 334

To Our Stockholders:

The impact of accelerating inflation and sharply higher interest costs severely affected our business in 1979. Earnings for the 52 weeks ended January 26, 1980, declined 11.6 per cent to $244 million from $276 million in 1978.

On a per share basis, net income in 1979 amounted to $3.52 compared with $4.12 in the prior year, when there were approximately 2.2 million fewer shares outstanding.

Sales advanced to $11.3 billion from $10.8 billion in 1978, a 4.0 per cent increase.

Interest expense climbed 22.1 per cent to $254 million from $208 million in 1978. This was almost double our interest expense of $130 million in 1977.

Increased markdown activity and higher LIFO provisions contributed to a decline in gross margins for the year. As explained in the 1979 Financial Review on page 18, LIFO cost 70 cents per share, as compared with 17 cents in 1978. The LIFO method of inventory valuation, which matches current costs and revenues, has particular significance in periods of rising prices.

Both sales and profits were affected by actions designed to lower merchandise inventories. At year end, inventories were approximately 14.5 per cent less than those at year end 1978. This position allowed for the purchase of fresh merchandise for upcoming selling seasons. Improved control over selling, general, and administrative expenses had a positive effect on our 1979 performance.

JCPenney stores and catalog continued to be the chief contributors to sales and earnings in 1979. Operating profits for JCPenney stores and catalog improved in the fourth quarter, although not sufficiently to generate a profit improvement for the year. Catalog sales were strong, increasing 20.1 per cent to a record $1.5 billion in 1979.

Sales of our Belgian operations rose to $861 million in 1979, and earnings continued to improve.

The Treasury stores' sales rose, but losses increased from the prior year level.

Drug store sales climbed 17.5 per cent to $409 million from $348 million in 1978,

Donald V. Seibert, Chairman of the Board

and earnings improved compared with the prior year.

JCPenney Financial Services, our insurance operations, continued to achieve record results in 1979.

JCPenney began accepting Visa cards in retail outlets and for catalog orders in 1979. The decision to offer customers an alternative means of payment was consistent with our policy of responding to customer preference. The Company also expects to attract new customers who use the Visa card and who do not presently shop in our stores.

Early in 1980, JCPenney entered into a 12-year agreement with Citicorp Industrial Credit, Inc. (C.I.C.), a wholly owned subsidiary of Citicorp, under which C.I.C. will purchase on an ongoing basis approximately 10 per cent of our customer accounts receivable. The initial sale, which took place in February, totaled approximately $287 million. We will use the proceeds of the sales principally to reduce our short term indebtedness. C.I C. will receive the finance charge income arising from the receivables it purchases and has contracted for JCPenney to continue to service those receivables. The 12-year term of the agreement will be extended automatically each year for an additional year unless either party objects to the extension.

Capital expenditures, mainly for JCPenney stores and catalog facilities, were $358 million in 1979. During the year, we opened 37 full line and 29 soft line JCPenney stores, 20 drug stores, and three stores in Belgium, adding new store space of about 6 million gross square feet.

In 1980, we plan to open 37 full line and 34 soft line JCPenney stores, 18 drug stores, and two stores in Belgium. Capital expenditures, primarily for JCPenney stores and catalog, are expected to approximate $350 million. The catalog expenditure for 1980 is earmarked mainly for a sixth distribution center, which is scheduled to open in 1981 in Manchester, Connecticut. New store space opened, net of closings, should be about 4 million gross square feet.

The economic outlook for 1980 is subject to a high degree of uncertainty because of record high interest rates and inflationary pressures. A further factor is the Federal program of credit controls announced just prior to the completion of this report. In the spirit of this program, we are taking steps to tighten our credit extensions.

Retailers account for a relatively small percentage of consumer debt. In addition, the inflation rate in the merchandise we sell is well below that of other sectors of the economy. This disparity widened last year as consumer prices measured by the Consumer Price Index for All Urban Consumers rose 11.6 per cent from the previous year, while prices of department store merchandise were up 5.8 per cent.

Credit, of course, is a retail selling tool, and the industry has absorbed the related costs even when these costs have exceeded the finance charge income. But if retailers are to be able to continue offering even a reduced level of credit to consumers, the ever widening deficit between finance charge income and the cost of extending credit must be narrowed. The only practical way to accomplish this is to enact legislation that would adjust finance charge ceilings so as to take into account money market rates and fixed costs.

As we enter the 80's, an assessment of JCPenney's performance over the past decade seems in order. Since 1970, our sales have grown by almost $7 billion, and net income has risen from $113 million to $244 million. This growth reflects important changes within our Company during the 70's, particularly in JCPenney stores.

We began the decade with 205 full line and 1,441 soft line stores. At year end 1979, the former numbered 517, and the latter

1,166. From 37 per cent of total sales in 1970, full line units' volume grew to 60.2 per cent in 1979. In the same period, soft line units' sales declined from 48.6 per cent of the total to 22.5 per cent.

Profits from our business base in JCPenney stores were used to build a strong foundation for the Company in other areas of retailing. Our investment in creating a catalog operation geared to the needs of contemporary shoppers paid off handsomely. Our catalog activity initially was concentrated in the area east of the Rockies and serviced through our distribution centers in Milwaukee and Atlanta. After catalog turned profitable in 1971, we began to expand, opening distribution centers in Columbus, Ohio, in 1974; Lenexa, Kansas, in 1977; and Reno, Nevada, in 1979. By the end of the 70's, JCPenney had grown to be the second largest marketer of catalog merchandise in the country, with a coast-to-coast distribution network serving customers in all 50 states and Puerto Rico.

In the early 70's, our insurance subsidiaries were limited to the life and health field. After expanding into the casualty area, we renamed our operation JCPenney Financial Services. Overall contribution to net income from JCPenney Financial Services has risen from $4 million in 1970 to $26 million in 1979.

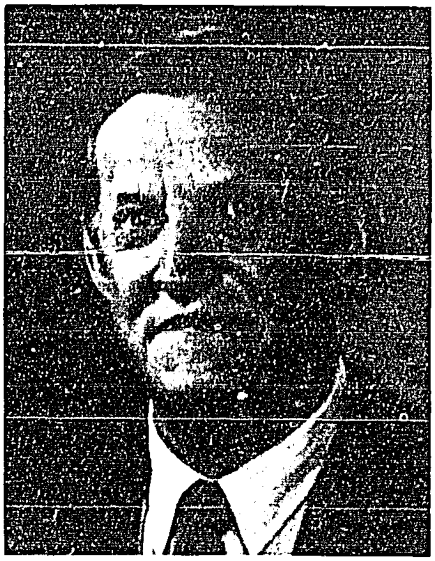
Our Thrift drug operation has grown from a chain of 189 stores at year end 1970 to 351 stores at the close of 1979. Sales have risen from $98 million in 1970 to $409 million in 1979.

We continue to work toward a profitable course for The Treasury discount stores. New approaches to buying and marketing combined with a move of The Treasury's headquarters to the West Coast are expected to help improve operating performance.

Our Belgian operations have been profitable since 1974, and sales have grown from $204 million in 1970 to $861 million in 1979.

In 1977, we discontinued two operations which did not meet our growth and profit criteria—supermarkets in the United States and our stores in Italy.

During the past four years, we have reorganized our merchandising and marketing activities at all levels—from the field to top management—into a closely linked



Walter J. Neppl, President

team approach for each of our six major merchandise categories. A great deal of what was learned during the development and implementation of our Women's Fashion Program has been applied to other merchandise areas. These efforts are bringing merchandise to the selling floor which is in tune with both the fashion and price preferences of middle income shoppers.

Immediately following this letter, we highlight some of the new JCPenney merchandise that will be available in our stores and catalog in 1980 and describe the merchandising and marketing approach used for each item.

Our progress in all areas of our business depends on the dedication, hard work, and creativity of JCPenney people. We would like to take this opportunity to thank the more than 200,000 men and women who worked with us this past year as well as suppliers and customers for their continuing support.

During 1979, William R. Howell and David F. Miller were elected senior vice presidents. Both men assumed newly created positions in the Company. Mr. Howell became director of merchandise, marketing and catalog, and Mr. Miller was appointed director of JCPenney stores.

We were saddened last year by the deaths of Albert W. Hughes, a former chairman; Robert R. Van Kleek, vice president and director of special business operations; and Benjamin J. McKinney, vice president and director of store and facilities planning and construction services.

We wish to express our special appreciation for the outstanding service rendered by four of our top executives who retired in 1979: Lee S. Moore, executive vice president; Baldwin L. Humm, senior vice president and director of merchandise; George S. Stewart, senior vice president and director of corporate facilities and services; and Andrew Cumming, vice president and director of corporate personnel. We are especially proud of these men who spent their entire careers at JCPenney.

Concerned as we are with the economic realities that face us, we are determined not to allow any setback to our societal and environmental goals, which, as a matter of policy, we have built into our day-to-day business operations. These important areas, including community involvement, contributions, energy conservation, minority economic development, resource recovery, and equal employment opportunity, are described on page 31.

Our commitment to being a productive member of our society as well as a retailer responsive to changing consumer needs and wants remains firm in any economic environment. With the support of our people, we are confident that JCPenney will successfully meet the challenges of 1980 and the new decade.

Donald V. Seibert

Donald V. Seibert, Chairman of the Board

Walter J. Neppl

Walter J. Neppl, President

March 25, 1980

Merchandise focus 1980 . . . All bets are on the "Preppy" look, and JCPenney is prepared with a wide assortment of classic coordinates to suit most budgets.

The young woman at the right has combined a $56 wool blend blazer with a $16 all wool Shetland sweater and a $20 wool blend Tartan plaid kilt to create an outfit that is right on fashion's target. These items are part of a collection called "Prep Courses" that will be seen in our store windows, interior displays, and advertising, including a 14-page insert in the back-to-school issue of *Seventeen* magazine. The $56 grey flannel blazer and matching $25 pants, both carrying Bobbie Brooks' Bryn Mawr label, are another version of the tailored trend. Because "Prep Courses" is a Company-wide program, most large JCPenney stores and many soft line units will carry selected label line items as well as JCPenney's own forward fashion assortments.

Label lines represent about 15 per cent of the merchandise mix of the women's department in full line stores. The balance of our offerings ranges from lower priced basics to moderately priced private label fashions. The red coat pictured here is in the latter category and will be available in most large JCPenney stores and our catalog for $99 this fall.

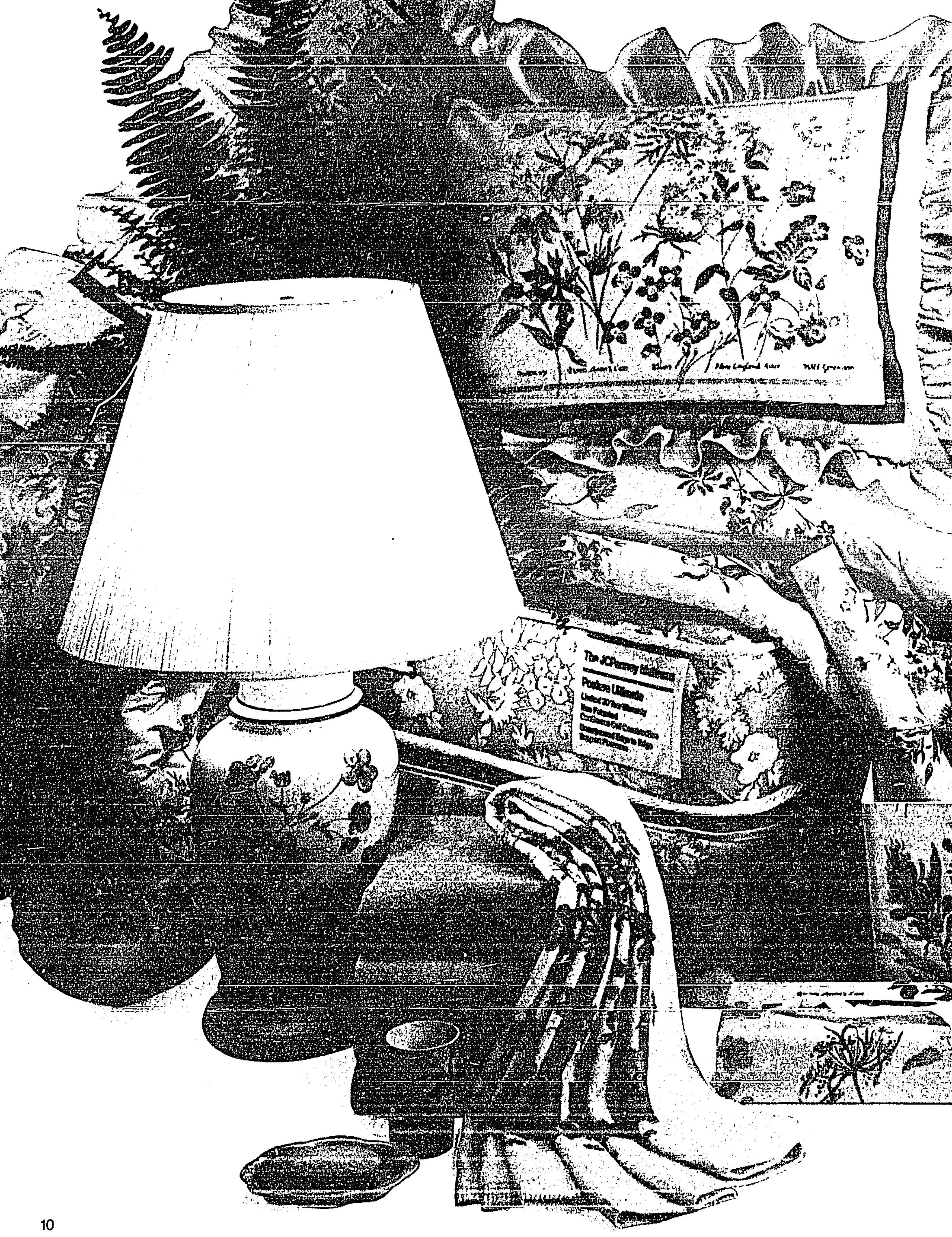
Merchandise focus . . . the classics, naturally. The gentleman at the left is wearing three classics which illustrate still another growing fashion trend—the return of natural fibers. To complement a classic Harris Tweed jacket and 100 per cent wool slacks, he has chosen a preppy button-down shirt in a cotton blend. Cotton, like wool, has come on strong on the fashion scene. JCPenney's 100 per cent cotton dress shirt was introduced last fall. Priced at $15 versus a competitor's $18 offering, this shirt has generated strong response from consumers. By Christmas, the new item was tracked at 12th position in our shirt sales. Most recently, it placed fourth in a field of 36 items.

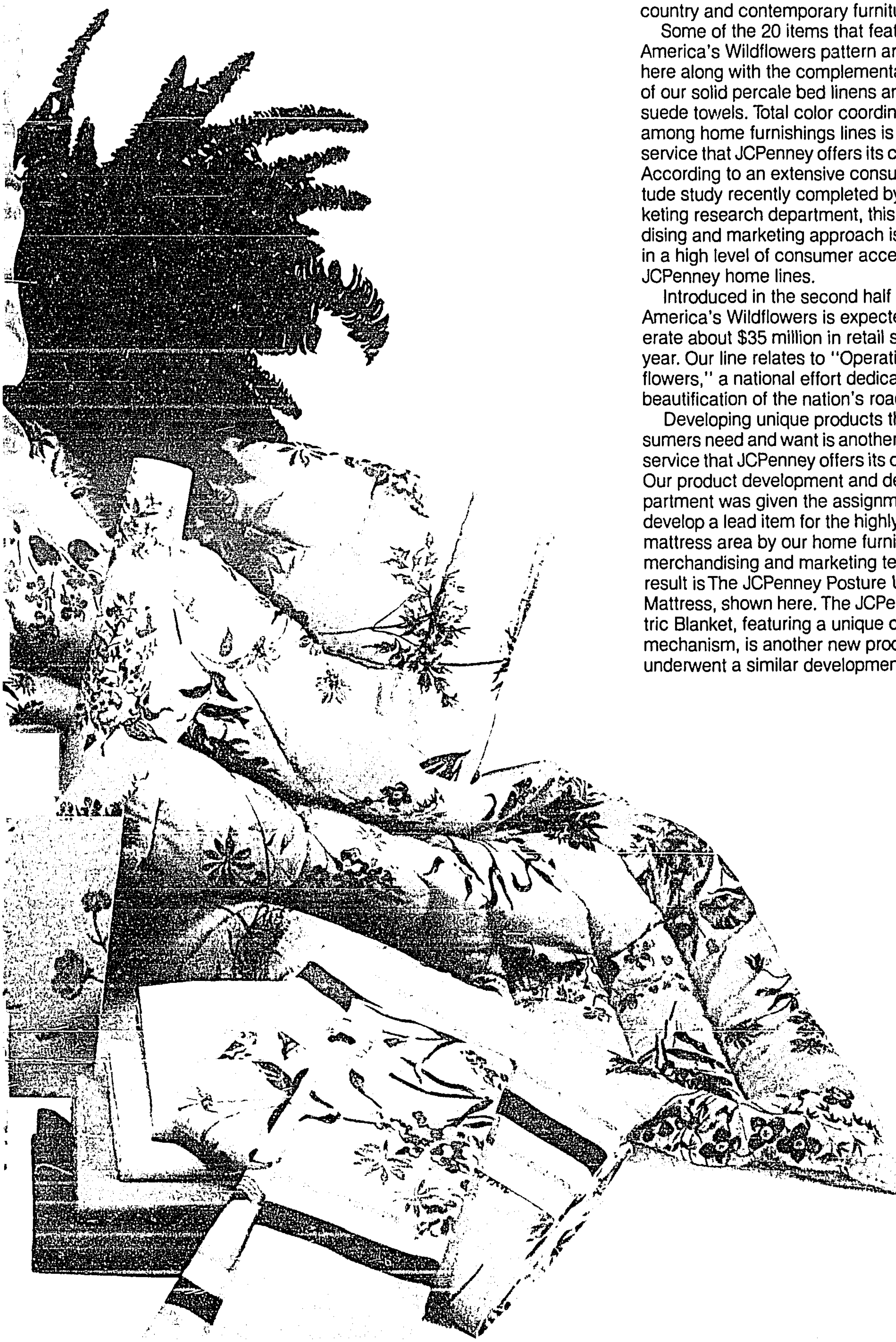
The Plain Pocket shirt, Fox sweater, and Action Master slacks worn by the gentleman at the right have both fashion and comfort appeal. Plain Pocket jeans and shirts and Fox shirts, sweaters, and accessories are exclusive JCPenney lines whose popularity grows with every passing season. Action Master, one of our new exclusive labels, was introduced in JCPenney stores for the winter holiday season in 1979. Priced at $18, it has the same expandable waistband comfort feature as a competitor's heavily advertised $22 brand. After selling more than 200,000 pairs of Action Master slacks in JCPenney stores last year, we shipped some 400,000 pairs for both stores and catalog this spring and added a jacket with a comfort stretch feature to the line. By fall 1980, we will be shipping some 500,000 pairs of the Action Master slack, which is fast becoming our second best seller in the men's pants category.

Merchandise focus for children and teenagers . . . jeans, jeans, jeans. The young lady at the left is wearing the new look in jeans and tops from our exclusive Body Lingo line, which was introduced in 1978. JCPenney was the first retailer to offer designer style jeans for grade school and junior high girls. We were in business with Body Lingo for a full year before name designers decided to enter the girls' fashion jeans business. Designer lines in these sizes sell for $22 to $26 in department stores versus the $13 to $16 Body Lingo prices at JCPenney. With the addition of designer look tops, our Body Lingo line rang up approximately $9 million in retail sales during 1979 and should reach the $16 million mark as the assortment expands in 1980.

For pre-schoolers, such as the little boy shown here, favorite clothes are often those with the logo and Muppets from the popular *Sesame Street* television program. A recent survey showed that 82 per cent of a wide sampling of mothers polled across the country has heard of Sesame Street children's apparel and 79 per cent associated the line with JCPenney. This strong recognition is reflected in the line's consistently good performance in stores and catalog. JCPenney recently signed a new five year contract, which grants us continued exclusive rights to develop and market Sesame Street apparel for infants, toddlers, and pre-schoolers.

All our lines are designed to suit children's fashion tastes as well as their need for clothing that will withstand a lot of wear and tear. The little girl at the right is wearing an outfit from our Hot Pursuit line of active sportswear for pre-school girls, which we are introducing this spring. Hot Pursuit offers fashion, durability, and a competitive price. If the new line catches on, we plan to expand Hot Pursuit to other children's categories.





The merchandise focus in home furnishings is on classic looks that coordinate with our country and contemporary furniture.

Some of the 20 items that feature the America's Wildflowers pattern are shown here along with the complementary colors of our solid percale bed linens and terry suede towels. Total color coordination among home furnishings lines is a unique service that JCPenney offers its customers. According to an extensive consumer attitude study recently completed by our marketing research department, this merchandising and marketing approach is reflected in a high level of consumer acceptance of JCPenney home lines.

Introduced in the second half of 1979, America's Wildflowers is expected to generate about $35 million in retail sales this year. Our line relates to "Operation Wildflowers," a national effort dedicated to the beautification of the nation's roadsides.

Developing unique products that consumers need and want is another important service that JCPenney offers its customers. Our product development and design department was given the assignment to develop a lead item for the highly profitable mattress area by our home furnishings merchandising and marketing team. The result is The JCPenney Posture Ultimate Mattress, shown here. The JCPenney Electric Blanket, featuring a unique control mechanism, is another new product which underwent a similar development process.

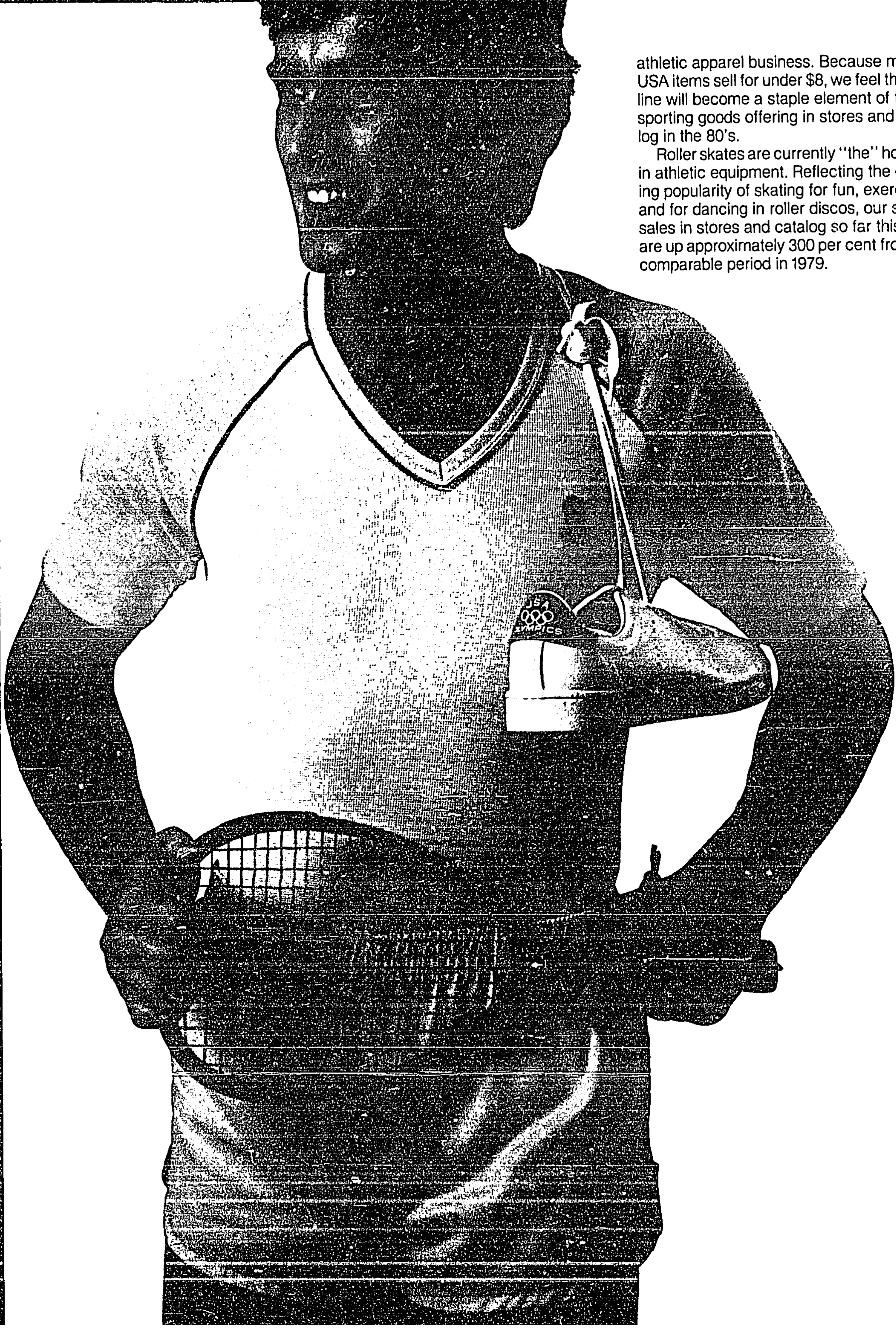
Looks and labels are the focus of the fastest growing sector of our sporting goods business—athletic apparel and footwear.

The gentleman shown here has chosen a racquet from the best known name in racquetball equipment—Leach—and his shirt also carries the logo of that brand. For the past two years, our assortment of Leach shirts, shorts, and warm-up suits has been building fashion sales for JCPenney. For racquetball and other sports, there is an appropriate USA Olympics shoe.

Labels have also become an increasingly important element in basic categories of athletic apparel. The young lady dressed for roller skating has chosen items from a line that was introduced in stores early in 1980 and has met with an unusually strong consumer response. Red letters transform standard navy sweatshirts, shorts, pants, T-shirts, baseball caps, and athletic tote bags into a trendy line. Our buyers estimate that the USA line will ring up some $5 million in retail sales in its first year without detracting from the healthy growth of our standard

athletic apparel business. Because most USA items sell for under $8, we feel that the line will become a staple element of the sporting goods offering in stores and catalog in the 80's.

Roller skates are currently "the" hot item in athletic equipment. Reflecting the growing popularity of skating for fun, exercise, and for dancing in roller discos, our skate sales in stores and catalog so far this year are up approximately 300 per cent from the comparable period in 1979.



Management's Statement on Financial Information

The Company's management is responsible for the information presented in this Annual Report. The financial statements have been prepared in accordance with generally accepted accounting principles and are considered in the judgment of management to present fairly in all material respects the Company's results of operations, financial position, and changes in financial position. Certain estimated amounts are included in the financial statements, and these amounts are based on currently available information and management's judgment of current conditions and circumstances. Financial information elsewhere in this Annual Report is consistent with that in the financial statements.

The Company's system of internal accounting controls and procedures is supported by written policies and guidelines and supplemented by a staff of internal auditors. The system is designed to provide management with reasonable assurance, at appropriate cost, that assets are safeguarded and that transactions are executed in accordance with management's authorization and recorded and reported properly. The system is continually reviewed, evaluated, and, where appropriate, modified to accommodate current conditions. Emphasis is placed on the careful selection, training, and development of professional managers.

An organizational alignment that is premised upon appropriate delegation of authority and division of responsibility is fundamental to this system. Communication programs are aimed at assuring that established procedures, policies, and guidelines are disseminated and understood throughout the Company.

The financial statements have been audited by independent public accountants whose report appears on page 16.

The Audit Committee of the Board of Directors is composed solely of directors who are not officers or employees of the Company. The Audit Committee is responsible for recommending to the Board the engagement of the independent public accounting firm for the purpose of conducting the annual examination of the Company's accounts. Company management, internal auditors, and the independent public accountants meet periodically with the Audit Committee to review financial statements and discuss auditing and financial reporting matters.

Summary of Accounting Policies

The dominant portion of JCPenney's business consists of selling merchandise and services to consumers through stores, including catalog operations.

Definition of Fiscal Year. JCPenney's fiscal year ends on the last Saturday in January. Fiscal year 1979 ended January 26, 1980; fiscal year 1978 ended January 27, 1979. Each year comprised 52 weeks. The accounts of several subsidiaries, including JCPenney Financial Services, are on a calendar year basis.

Basis of Consolidation. The consolidated financial statements present the results of all merchandising operations and those real estate subsidiaries whose properties are presently being utilized in merchandising operations. Not consolidated are J.C. Penney Financial Corporation, JCPenney Financial Services, and JCP Realty, Inc., which are accounted for on the equity basis.

The income before income taxes of J. C. Penney Financial Corporation is included in the statement of income as a reduction of interest expense. The combined income of all other unconsolidated subsidiaries is included as a single item in the statement of income.

Sales. Sales include merchandise and services, net of returns, and exclude sales and value added taxes.

Accounts Receivable. Finance charge income arising from customer accounts receivable is treated as a reduction of selling, general, and administrative expenses in the statement of income.

Merchandise Inventories. Substantially all merchandise inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method.

Properties. Maintenance and repairs are charged to current operations as incurred, and improvements are capitalized.

Depreciation. The cost of buildings and equipment is depreciated on a straight line basis over the estimated useful lives of the assets. The principal annual rates used in computing depreciation are 3 per cent for store buildings, 2-1/2 per cent to 4 per cent for warehouse and office buildings, and 10 per cent for fixtures and equipment. Property rights under capital leases and improvements to leased premises are amortized on a straight line basis over the term of the lease or their useful life, whichever is shorter.

Income Taxes. JCPenney uses the "flow through" method whereby income taxes are reduced currently for the amounts of investment tax credits.

Deferred Charges. Expenses associated with the opening of new stores are written off in the year of store opening, except those of stores opened in January, which are written off in the following fiscal year. Catalog preparation and printing costs are written off over the estimated productive lives of the catalogs, not to exceed six months.

Pension Cost. The cost of pension benefits has been determined by the entry age normal method. Unfunded actuarial liabilities are amortized over a period not to exceed 30 years.

Statement of Income
Statement of Reinvested Earnings

(In millions except per share data)

Statement of Income	52 weeks ended January 26, 1980	52 weeks ended January 27, 1979
Sales	**$11,274**	$10,845
Costs and expenses		
Cost of goods sold, occupancy, buying, and warehousing costs	**8,005**	7,650
Selling, general, and administrative expenses	**2,632**	2,522
Interest, after deduction of income before income taxes of J.C.Penney Financial Corporation	**254**	208
Total costs and expenses	**10,891**	10,380
Income before income taxes and other unconsolidated subsidiaries	**383**	465
Income taxes	**166**	212
Income before other unconsolidated subsidiaries	**217**	253
Net income of other unconsolidated subsidiaries	**27**	23
Net income	**$ 244**	$ 276
Net income per share	**$ 3.52**	$ 4.12

Statement of Reinvested Earnings		
Reinvested earnings at beginning of year	**$ 1,613**	$ 1,456
Net income for the year	**244**	276
Changes in unrealized decline in value of equity securities	**2**	(1)
Dividends	**(122)**	(118)
Reinvested earnings at end of year	**$ 1,737**	$ 1,613

See Summary of Accounting Policies on page 14 and
1979 Financial Review on pages 18 to 25.

Management's Discussion of Recent Results

1979 Compared with 1978

While sales for 1979 increased 4 per cent over 1978 and on a comparative unit basis increased 1.3 per cent, inflation in general merchandise was approximately 6 per cent. The effects of inflation, manifested through increases in cost of merchandise and interest rates, were the principal contributors to the 11.6 per cent decline in net income from 1978.

Gross margin declined for the year due to higher LIFO provisions. Selling, general, and administrative expenses were 23.3 per cent of sales, the same ratio as last year. Interest expense increased 22.1 per cent principally due to higher interest rates.

For additional discussion and analysis of 1979 compared with 1978, see To Our Stockholders on pages 2 and 3 and the 1979 Financial Review on pages 18 to 25.

1978 Compared with 1977

Sales for 1978 increased 15.8 per cent over 1977, with inflation accounting for approximately 5.0 per cent. Excluding the sales of the Company's supermarket and Italian operations, which were discontinued in 1977, sales for the year increased 17.8 per cent.

Net income in 1978 decreased 4.8 per cent from 1977. Inventory levels where higher than requirements throughout the year. Despite heavy promotional activities, gross margin was maintained. Selling, general, and administrative expenses rose as a per cent of sales primarily due to increased advertising and personnel related costs. Interest expense climbed 60.0 per cent in 1978 because of higher interest rates and borrowing levels.

Balance Sheet

(In millions)

Assets	January 26, 1980	January 27, 1979
Current assets		
Cash and short term investments	$ 99	$ 78
Receivables, net	665	467
Merchandise inventories	1,749	2,046
Prepaid expenses	118	101
Total current assets	2,631	2,692
Investment in and advances to unconsolidated subsidiaries	579	498
Properties and property rights, net of accumulated depreciation and amortization of $641 and $569	1,823	1,609
Other assets	44	34
	$5,077	$4,833

Liabilities and Stockholders' Equity	January 26, 1980	January 27, 1979
Current liabilities		
Accounts payable and accrued liabilities	$1,084	$1,077
Dividend payable	31	30
Income taxes	41	45
Deferred credits, principally tax effects applicable to installment sales	466	404
Total current liabilities	1,622	1,556
Long term debt and commitments under capital leases	836	841
Deferred credits, principally tax effects applicable to depreciation and capital leases, net	99	79
Stockholders' equity		
Preferred stock, without par value: Authorized, 5 million shares—issued, none		
Common stock, par value 50¢: Authorized, 100 million shares—issued, 69.7 million shares	783	744
Reinvested earnings	1,737	1,613
Total stockholders' equity	2,520	2,357
	$5,077	$4,833

See Summary of Accounting Policies on page 14 and
1979 Financial Review on pages 18 to 25.

Accountants' Report

To the Stockholders and Board of Directors of J.C. Penney Company, Inc.

We have examined the balance sheet of J.C. Penney Company, Inc. and consolidated subsidiaries as of January 26, 1980 and January 27, 1979, and the related statements of income, reinvested earnings, and changes in financial position for the 52 week periods then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the financial position of J.C. Penney Company, Inc. and consolidated subsidiaries at January 26, 1980 and January 27, 1979, and the results of their operations and changes in their financial position for the 52 week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the accompanying statistical data on pages 26, 27, 28, and 29 present fairly the information shown therein.

345 Park Avenue
New York, N.Y.
March 18, 1980

Peat, Marwick, Mitchell & Co.

Statement of Changes in Financial Position

(In millions)

	52 weeks ended January 26, 1980	52 weeks ended January 27, 1979
Funds were generated from:		
Operations		
Net income	$ 244	$ 276
Deduct undistributed net income of unconsolidated subsidiaries	(87)	(66)
Depreciation and amortization	135	119
Deferred credits, principally tax effects applicable to depreciation and amortization	20	22
Stock issued for Company contributions to savings and profit-sharing and stock bonus plans	9	51
Total	321	402
External sources		
Disposition of properties	9	10
Increase in long term debt	10	100
Stock issued for employee contributions to savings and profit-sharing plan and exercise of options	30	31
Decrease in investment in and advances to unconsolidated subsidiaries	8	10
Total	57	151
Total funds generated	378	553
Funds were used for:		
Dividends	122	118
Capital expenditures	358	334
Retirement of long term debt	15	6
Change in other assets	10	7
Total funds used	505	465
Increase (decrease) in working capital	(127)	88
Increase in other deferred credits, principally tax effects applicable to installment sales	62	58
Increase (decrease) in working funds	$ (65)	$ 146

Analysis of Changes in Working Capital and Working Funds

Cash and short term investments	$ 21	$ 5
Receivables, net	198	(157)
Merchandise inventories	(297)	340
Accounts payable and accrued liabilities	(7)	(119)
Income taxes and deferred credits	(58)	(7)
Other	16	26
Increase (decrease) in working capital	(127)	88
Deferred credits, principally tax effects applicable to installment sales	62	58
Increase (decrease) in working funds	$ (65)	$ 146

See Summary of Accounting Policies on page 14 and 1979 Financial Review on pages 18 to 25.

1979 Financial Review

Overview

Sales in 1979 were $11.3 billion, an increase of 4.0 per cent over the $10.8 billion in 1978. Following is a breakdown of the Company's sales:

(In millions)	1979	1978	Per cent increase All units	Per cent increase Comparative units
JCPenney stores	**$ 9,322**	$ 9,078	2.7	.1
Catalog	**1,455**	1,212	20.1	n/a
Other retail operations .	**1,688**	1,525	10.7	9.6
Catalog sales centers .	**(1,191)**	(970)	n/a	n/a
Total	**$11,274**	$10,845	4.0	1 3

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores. Total catalog sales shown above include sales by catalog sales centers, outlet stores, and mail. The duplication with respect to sales by catalog sales centers is eliminated in the line entitled catalog sales centers. Comparative units are those in operation throughout both 1979 and 1978. For further analyses of sales, see the discussion below and the Ten Year Operations Summary on page 27.

In the 10 years ended January 26, 1980, sales have grown at the compound annual rate of 11.2 per cent.

Net income was $244 million in 1979, a decline of 11.6 per cent from the $276 million earned in 1978. Net income per share, based on the weighted average number of shares outstanding, was $3.52 in 1979, a decline of 14.6 per cent from the $4.12 per share earned in 1978, when there were approximately 2.2 million fewer shares outstanding.

The lower of cost (last-in, first-out) or market retail method of inventory valuation reduced net income per share 70 cents in 1979 compared with a 17 cents per share reduction in 1978. On a per share basis, interest expense increased from $1.53 in 1978 to $1.89 in 1979.

In the 10 years ended January 26, 1980, net income per share has increased at the compound annual rate of 5.3 per cent.

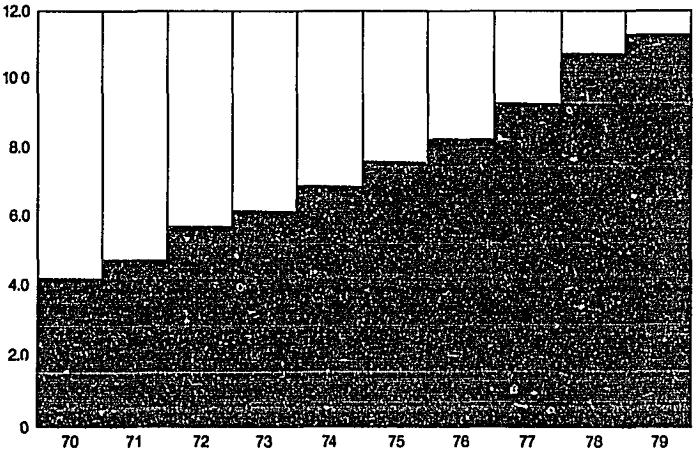
The quarterly dividend was 44 cents per share in each quarter of 1979 and 1978, or an annual rate of $1.76 per share. Dividends declared totaled $122 million in 1979 compared with $118 million in 1978.

Retail units and net selling space increased as follows:

	1979 Number of units	1979 Net selling space (000 sq ft.)	1978 Number of units	1978 Net selling space (000 sq. ft.)
JCPenney stores				
Additions				
Full line . .	**37**	**2,821**	28	2,127
Soft line	**29**	**714**	33	727
Total .	**66**	**3,535**	61	2,854
Closings				
Full line .	**2**	**77**	2	139
Soft line				
Relocations	**49**	**667**	47	471
Other .	**15**	**203**	15	143
Total	**66**	**947**	64	753
Increase (decrease), net .	**—**	**2,588**	(3)	2,101
Other retail operations, net .	**12**	**(2)**	36	396
Modifications and expansions, net . . .	**—**	**(181)**	—	89
Net increase in store space ..	**12**	**2,405**	33	2,586
Total in operation at year end	**2,145**	**68,724**	2,133	66,319

A schedule of store space opened in 1979 appears on page 26. A history of retail units and net selling space is included in the Ten Year Operations Summary on page 27.

Sales (Dollars in billions)



For the Quarters (Unaudited)
(In millions except per share data)

	First 1979	First 1978	Second 1979	Second 1978	Third 1979	Third 1978	Fourth 1979	Fourth 1978
Sales	**$2,335**	2,175	**2,481**	2,433	**2,764**	2,705	**3,694**	3,532
Per cent increase from prior year ...	**7.4**	16.8	**2.0**	22.1	**2.2**	14.6	**4.6**	12.0
Cost of goods sold, occupancy, buying, and warehousing costs	**$1,631**	1,533	**1,780**	1,730	**1,940**	1,898	**2,654**	2,489
Net income	**$ 35**	33	**16**	40	**60**	68	**133**	135
Per cent increase (decrease) from prior year	**6.4**	15.7	**(58.9)**	21.2	**(13.7)**	(6.6)	**(1.1)**	(13.1)
Net income per share	**$ .51**	.50	**.24**	.58	**.85**	1.03	**1.92**	2.01
Dividends per share	**$ .44**	.44	**.44**	.44	**.44**	.44	**.44**	.44
Common stock price range								
(high)	**$ 32**	42	**32**	43	**33**	41	**28**	35
(low).	**$ 28**	33	**28**	36	**25**	32	**24**	30

JCPenney Stores

JCPenney stores contributed to sales as follows:

(In millions)	1979	1978	Per cent increase (decrease) All units	Comparative units
Full line	**$6,785**	$6,562	3.4	(.4)
Soft line	**2,537**	2,516	.8	1.3
Total	**$9,322**	$9,078	2.7	.1

JCPenney full line stores are generally major tenants in large shopping centers located throughout the United States. These department stores offer a wide selection of family apparel, home furnishings and household textiles, leisure time goods, automotive equipment, and household durables. In most stores, about two-thirds of net selling space is devoted to apparel and other soft line merchandise. Virtually all of these stores have a catalog sales center.

At year end, the Company had 517 full line stores in operation. These stores vary widely in size and average 87,000 square feet of net selling space. For full line stores in operation throughout 1979, sales per square foot of net selling space were approximately $157, slightly under the record $160 per square foot in 1978. The Company's store expansion program continues to be primarily based upon the opening of full line stores in shopping centers of major metropolitan markets.

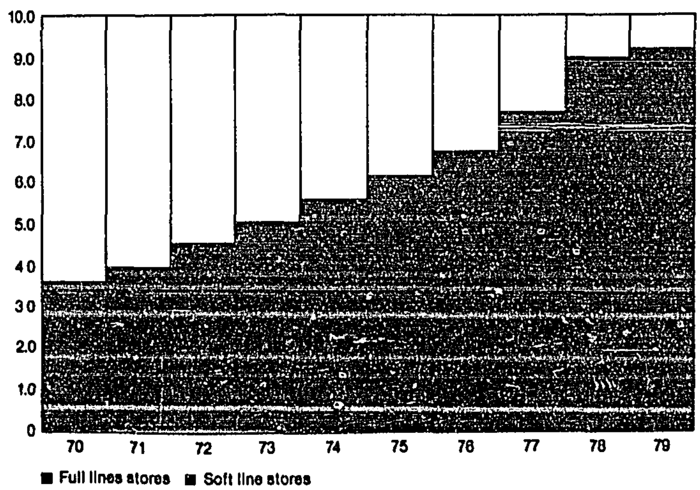
Full line stores' profit increased in 1979 from the prior year level principally as a result of improved gross margin.

JCPenney soft line stores sell principally apparel and household textile merchandise. These stores vary widely in size and average 13,000 square feet of net selling space. Virtually all of these stores have a catalog sales center, which contributes importantly to sales and profits. Most are located in communities where the Company has operated stores for many years.

At year end, the Company had 1,166 soft line stores in operation. For soft line stores in operation throughout 1979, sales per square foot of net selling space were approximately $167. The Company's plans for its soft line stores operation call for improving productivity in existing markets and expanding into new markets. These plans include modernization and relocation, as well as the leasing of existing retail space when suitable opportunities become available.

Soft line stores' profit declined slightly in 1979 from the 1978 level. An improvement in gross margin was not sufficient to offset increased operating expenses.

JCPenney Stores' Sales (Dollars in billions)



Catalog

Catalog operations serve customers who order merchandise through catalog sales centers in the Company's stores or directly by mail from one of its five distribution centers as well as those customers who purchase merchandise in catalog outlet stores. This operation expands the Company's overall retailing capabilities by offering a wide range of apparel, home furnishings, leisure time goods, and automotive equipment.

The Company publishes two general catalogs: a fall and winter catalog and a spring and summer catalog. These are supplemented by special catalogs, including Christmas and other seasonal and promotional catalogs.

The following table shows the components of catalog sales:

(In millions)	1979	1978	Per cent increase All units	Comparative units
Sales centers				
JCPenney stores				
Full line	**$ 567**	$ 441	28.9	10.5
Soft line and other	**587**	502	16.9	9.4
Other retail operations	**37**	27	36.2	17.9
	1,191	970	22.9	10.1
Mail order	**156**	145	7.1	n/a
Outlet stores	**108**	97	11.6	13.1
Total	**$1,455**	$1,212	20.1	n/a

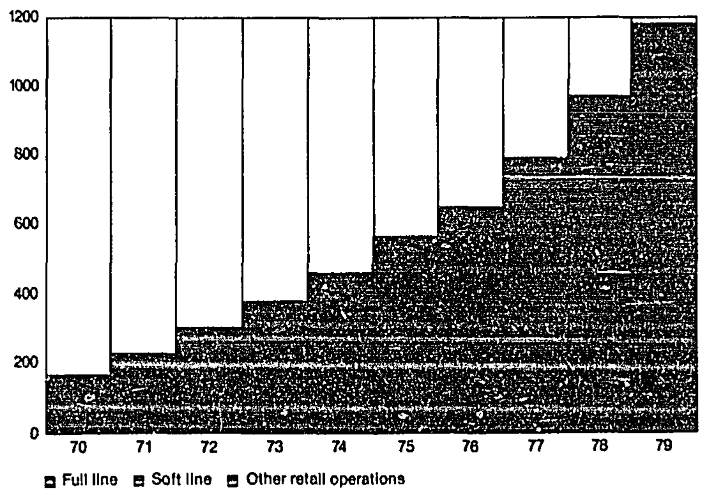
The number of catalog sales centers at each year end is shown below:

	1979	1978
JCPenney stores		
Full line	**515**	432
Soft line and other	**1,208**	1,110
Other retail operations	**97**	80
Total	**1,820**	1,622

Catalog opened its fifth distribution center in Reno, Nevada, in January 1979. Shortly thereafter, catalog sales centers were opened in most stores on the west coast.

Catalog's profit declined from the 1978 level due to a slight decline in gross margin and higher operating expense ratios.

Catalog Sales Centers' Sales (Dollars in millions)



Belgian, The Treasury, and Drug Stores

Sales of other retail operations are as follows:

			Per cent increase	
(In millions)	1979	1978	All units	Comparative units
Belgian stores	$ 861	$ 768	12.1	10.1
The Treasury stores	418	409	2.1	7.3
Drug stores	409	348	17.5	11.5
Total	$1,688	$1,525	10.7	9.6

Belgian stores, operating under the name Sarma, sell general merchandise, food, and apparel. Belgian operations include sales of $375 million to franchised stores, of which 186 were in operation at year end. Food sales accounted for 61 per cent of 1979 sales.

At year end, there were 77 Sarma stores with an average of 24,000 square feet of net selling space. Three stores were opened and four stores were closed during 1979.

In local currency, sales of all units and comparative units increased 5.2 per cent and 3.4 per cent, respectively.

Net assets were $93 million at year end 1979, compared with $80 million at year end 1978.

Belgian profits, both in local currency and after the effect of currency translations, improved over 1978.

The Treasury stores are freestanding discount stores averaging 94,000 square feet of net selling space.

As a result of lower gross margin, increased operating expenses, and expenses incurred in closing three stores in 1979, losses increased from the prior year level.

Drug stores, operating under the name Thrift Drug or The Treasury Drug Center, average 8,500 square feet of net selling space and offer prescription drugs, health and beauty aid products, and other typical drug store merchandise. During 1979, 20 stores were opened and four stores were closed. At year end, the Company operated 351 drug stores, of which 97 had catalog sales centers.

Drug stores' profit increased in 1979 due to improved control of operating expenses.

Other Retail Operations' Sales (Dollars in millions)

Unconsolidated Subsidiaries

Investment in and advances to unconsolidated subsidiaries were $579 million at year end 1979, compared with $498 million at year end 1978. The following tabulation shows a breakdown of the investment, stated at equity in net assets, and advances:

(In millions)	January 26 1980	January 27 1979
J.C.Penney Financial Corporation	$434	$374
JCPenney Financial Services	166	138
JCP Realty, Inc.	(21)	(14)
Total	$579	$498

J.C.Penney Financial Corporation finances JCPenney's customer receivables. Financial charges JCPenney a discount on the receivables purchased which is calculated to produce earnings sufficient to cover Financial's fixed charges, chiefly interest on borrowings, at least one and one-half times.

To finance its purchases of receivables, Financial sells its short term notes (commercial paper and master notes) directly to investors and from time to time issues long term debt and utilizes short term bank borrowings. None of Financial's obligations is guaranteed by JCPenney.

Following is information regarding note borrowings and interest rates:

	1979	1978
Average short term borrowings, net of short term investments (In millions)	$1,090	$1,121
Average short term rate	11.0%	8.2%
Average rate of interest paid on total debt	10.1%	8.3%

During 1979, Financial sold to a group of institutional investors $50 million of 10-1/4% senior notes due March 31, 1984.

Following is the condensed balance sheet of Financial:

(In millions)	January 26 1980	January 27 1979
Assets		
Customer receivables	$2,465	$2,420
Other	7	7
	$2,472	$2,427
Liabilities and equity		
Notes payable	$1,018	$1,088
Accrued liabilities	26	23
Due to JCPenney	123	121
Long term senior debt	846	796
Long term subordinated debt	25	25
Equity of JCPenney	434	374
	$2,472	$2,427

The complete financial statements of J. C. Penney Financial Corporation are contained in its 1979 annual report, which is available upon request.

JCPenney Financial Services consists of the operations of the Company's insurance subsidiaries These subsidiaries market life and health insurance and automobile and homeowners casualty insurance.

The insurance subsidiaries' profit improvement in 1979 over 1978 was due primarily to investment income.

Combined financial information on the insurance operations, in accordance with generally accepted accounting principles, is as follows:

Summary of operations

(In millions)	Year ended December 31 1979	1978
Life and health		
Premiums written	**$104**	$ 93
Premiums earned	**$100**	$ 88
Investment income	**19**	14
Total revenues	**119**	102
Benefits, claims, and expenses	**88**	78
Income before income taxes	**31**	24
Casualty		
Premiums written	**$ 88**	$ 74
Premiums earned	**$ 82**	$ 69
Investment income	**9**	6
Total revenues	**91**	75
Claims and expenses	**85**	68
Income before income taxes	**6**	7
Combined		
Income before income taxes	**$ 37**	$ 31
Income taxes, net of tax effect of loss carryforward of $2 million in 1978	**11**	9
Net income	**$ 26**	$ 22

Balance sheet

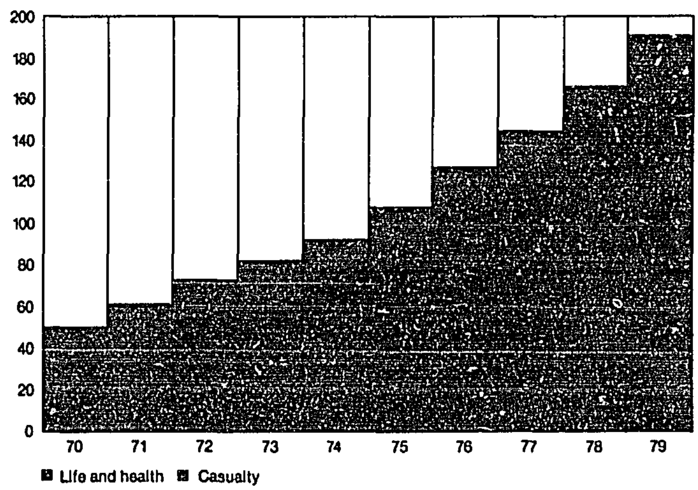
(In millions)	December 31 1979	1978
Assets		
Bonds, at amortized cost (market: $268 in 1979 and $234 in 1978)	**$296**	$247
Equity securities, at market (cost: $25 in 1979 and $23 in 1978)	**24**	18
Loans	**34**	33
Real estate, net	**18**	19
Deferred policy acquisition costs	**76**	60
Other	**31**	23
	$479	$400
Liabilities and equity		
Policy and claims reserves	**$250**	$218
Mortgage obligation	**10**	10
Income taxes and other liabilities	**53**	34
Due to JCPenney	**5**	5
Equity of JCPenney	**161**	133
	$479	$400

JCP Realty, Inc. is engaged in the development and operation of shopping centers through participation in joint ventures.

At year end, Realty had interests in 39 shopping centers, of which 21 were in operation, 10 were under construction, and eight were in the planning stage.

Realty continued to record a small profit in 1979 and at year end had advanced $35 million to JCPenney.

Premiums Written (Dollars in millions)



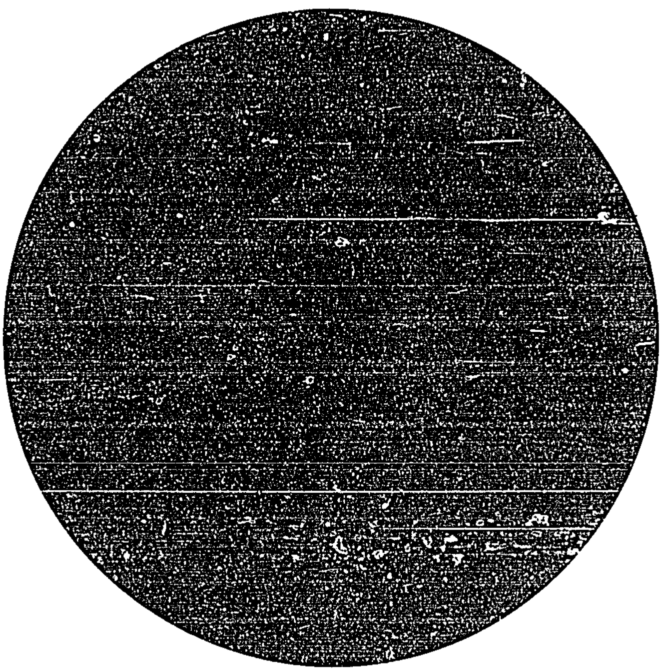
Assets

Receivables were as follows:

(In millions)	January 26 1980	January 27 1979
Customer receivables		
Regular charge	**$2,118**	$1,985
Time payment	**756**	644
	2,874	2,629
Less receivables sold to J. C. Penney Financial Corporation	**2,465**	2,420
	409	209
Due from J. C. Penney Financial Corporation	**123**	121
Other receivables	**191**	190
	723	520
Less allowance for doubtful accounts (2% of customer receivables)	**58**	53
Receivables, net	**$ 665**	$ 467

Customer receivables due after one year were approximately $552 million at year end 1979, compared with $477 million at year end 1978.

During February 1980, JCPenney entered into a 12-year agreement to sell on an ongoing basis approximately 10 per cent of its customer receivables to Citicorp Industrial Credit, Inc. (C.I.C.), a wholly owned subsidiary of Citicorp. Under the terms of the agreement, C.I.C. is committed to purchase up to $350 million of our customer receivables through November 30, 1980, and larger amounts thereafter, reaching $530 million after November 30, 1982. The initial sale totaled approximately $287 million.



Merchandise inventories at year end 1979 were $1,749 million, a decrease of 14.5 per cent from the $2,046 million at year end 1978. Substantially all inventories are valued at the lower of cost (last-in, first-out) or market, determined by the retail method. If the first-in, first-out method of inventory valuation had been used by the Company, inventories would have been $241 million higher at year end 1979 and $145 million higher at year end 1978.

Properties and property rights at year end were as follows:

(In millions)	1979	1978
Land	**$ 113**	$ 111
Buildings		
Owned	**628**	524
Capital lease property rights	**313**	313
Fixtures and equipment	**1,051**	956
Leasehold improvements	**189**	169
Construction in progress and land held for future use	**170**	105
	2,464	2,178
Less accumulated depreciation and amortization	**641**	569
Properties, net	**$1,823**	$1,609

Capital expenditures in 1979 and 1978 are shown in the following tabulation:

(In millions)	1979	1978
Land	**$ 4**	$ 9
Buildings	**105**	99
Fixtures and equipment	**159**	194
Leasehold improvements	**24**	20
Construction in progress and land held for future use	**66**	12
Total capital expenditures	**$358**	$334

Expenditures to renovate stores in 1979 and 1978 were $86 million and $107 million, respectively. There were no additional capital lease property rights in 1979 or 1978. Capital expenditures and capital lease property rights for 1975-1979 are shown below:

(In millions)	JCPenney stores	Catalog	Other	Total
1979	**$274**	**$34**	**$50**	**$358**
1978	203	64	67	334
1977	144	53	88	285
1976	176	26	35	237
1975	222	24	57	303

JCPenney stores include expenditures for support facilities directly related to store operations. Included in "Other" in 1977 is approximately $55 million for the purchase of the Company's headquarters building in New York City.

Liabilities and Stockholders' Equity

JCPenney's long term debt and commitments under capital leases are shown below:

(In millions)	January 26 1980	January 27 1979
8-7/8% sinking fund (commencing 1980) debentures due 1995	**$141**	$150
9% sinking fund (commencing 1984) debentures due 1999	**150**	150
8-1/2% guaranteed notes due 1983	**100**	100
5.778% mortgage notes on headquarters building	**35**	37
4-1/2% Eurodollar subordinated debentures due 1987, convertible at $83.96	**35**	35
5-1/2% note due 1980 (refinanced in 1980 with 9.75-9.875% notes dues 1985)	**25**	25
6% Eurodollar subordinated debentures due 1989, convertible at $54.50	**11**	11
9-3/8% note due 1984	**10**	—
Other	**4**	4
Total long term debt	**511**	512
Present value of commitments under capital leases	**325**	329
Total long term debt and commitments under capital leases	**$836**	$841

To provide for conversion of debentures, 615 thousand shares of common stock were reserved at January 26, 1980.

Maturities of long term debt and rental payments under capital leases for the next five fiscal years are as follows:

(In millions)	Long term debt	Capital leases
1980	$ 11	$ 29
1981	11	29
1982	11	29
1983	111	30
1984	31	30
Thereafter	347	483
Total	522	630
Less future interest and executory expenses	—	295
	522	335
Less amount included in current liabilities	11	10
	$511	$325

Confirmed lines of credit available to JCPenney totaled $1,178 million, including $1,148 million available to JCPenney or J.C. Penney Financial, none of which was in use. Unused lines of credit are supported by compensating balances, which are also used to compensate the banks for banking services associated with activity.

Stockholders' equity increased to $2,520 million at year end 1979 from $2,357 million at year end 1978. Of that increase, $124 million resulted from an increase in reinvested earnings.

The return on stockholders' equity was 10.3 per cent in 1979, as compared with 13.0 per cent in 1978.

The following table shows the changes in outstanding common stock:

	Shares (In thousands) 1979	Shares (In thousands) 1978	Amount (In millions) 1979	Amount (In millions) 1978
Balance at beginning of year	**68,318**	65,940	**$744**	$662
Issued to savings and profit-sharing plan	**1,290**	2,023	**37**	71
Stock options exercised	**1**	4	**—**	—
Issued under stock bonus plan	**94**	351	**2**	11
	69,703	68,318	**$783**	$744

The number of stockholders was approximately 86,000 at 1979 year end and at 1978 year end. At 1979 year end, approximately 85,000 employees were the beneficial owners, through the savings and profit-sharing plan, of 9.0 million shares of common stock, which represented 12.8 per cent of shares outstanding.

JCPenney common stock is traded principally on the New York Stock Exchange. It is also listed on the Brussels and Antwerp Stock Exchanges.

Stock bonus plan. Under the Company's 1977 stock bonus plan, 750 thousand shares of common stock were reserved for awards to be earned during each of the three fiscal years beginning with 1977. During the first two years of the plan, the equivalent of 657 thousand shares was earned. Due to the reserved shares limitation, the equivalent of 93 thousand shares, or 16.8 per cent of total awards earned in 1979, was distributed to participants, as compared with the equivalent of 370 thousand shares in 1978.

In order to offset the shortfall of shares under the plan, the Board of Directors has authorized, subject to stockholder approval at the annual meeting to be held on May 19, 1980, cash payments, totaling approximately $10 million, to participants equal to the remaining 83.2 per cent of the awards they earned in 1979.

Stock option plan. Under the Company's 1974 stock option plan, only ten-year non-qualified options may be granted. Options generally become exercisable one year from the date of grant.

Transactions in stock options were as follows:

	1979 Shares (In thousands)	1979 Option price	1978 Shares (In thousands)	1978 Option price
Balance at beginning of year	**1,761**	**$35.32-70.44**	1,078	$40.69-70.44
Granted	**333**	**29.38**	752	35.32
Exercised	**(1)**	**29.38**	(4)	35.32
Expired	**(76)**	**29.38-70.44**	(65)	35.32-70.44
Balance at end of year	**2,017**	**$29.38-70.44**	1,761	$35.32-70.44

The Board of Directors has approved a new 1980 stock option and performance unit plan, subject to stockholder approval at the annual meeting. The new plan, which is effective on January 27, 1980, replaces the 1974 stock option plan and the 1977 stock bonus plan, which have expired. In accordance with the 1980 plan, 2.5 million shares of common stock as well as shares available from the 1974 stock option plan will be reserved for issuance.

Supplementary Financial Data

Consumer purchases through JCPenney credit and bank cards totaled $4.6 billion in 1979, as compared with $4.3 billion in 1978.

JCPenney credit sales in 1979 rose to $4.5 billion, up 5.1 per cent from $4.3 billion in 1978. The proportion of credit sales to total sales increased to 43.0 per cent in 1979 from 42.2 per cent in 1978. In computing these percentages, sales in Belgium are excluded because the Company does not offer consumer credit in connection with those sales.

Approximately 81.8 per cent of total credit sales was made in accordance with the regular charge schedule, and the balance in accordance with the time payment schedule.

At year end, the number of accounts with outstanding balances was 12.3 million regular charge and 2.0 million time payment. Average account balances and average maturities were as follows:

	Average account balances		Average maturities (in months)	
	1979	1978	**1979**	1978
Regular	**$172**	$167	**5.3**	5.2
Time	**371**	356	**9.7**	9.8
All	**201**	192	**6.1**	5.9

Account balances in which any portion was three months or more past due represented 2.3 per cent of the amount of customer receivables at year end 1979, compared with 2.4 per cent at year end 1978.

The Company's policy is to write off accounts when a dollar amount equal to a scheduled minimum payment has not been received for six consecutive months, or if any portion of the balance is more than 12 months past due, or if it is otherwise determined that the customer is unable to pay. Collection efforts continue subsequent to write off, and recoveries are applied as a reduction of bad debt losses. Net bad debt losses increased in 1979 to $63 million, or 1.4 per cent of credit sales, from $54 million in 1978, or 1.3 per cent of credit sales.

The net cost of the retail credit operation increased in 1979, as shown below:

(In millions)	**1979**	1978
Finance charge income	**$370**	$326
Costs		
Administration and applicable store expenses	**181**	166
Interest on average receivables less applicable deferred taxes	**217**	161
Provision for doubtful accounts	**68**	62
Income taxes	**(39)**	(29)
	427	360
Net cost of credit	**$ 57**	$ 34
Net cost as per cent of credit sales	**1.3%**	.8%

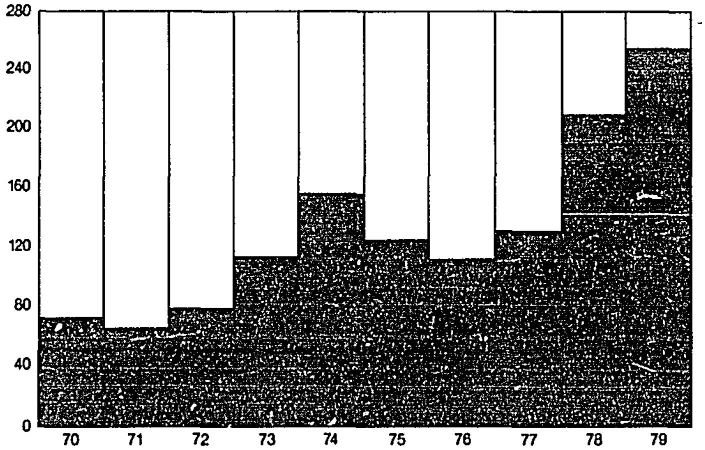
Advertising expense by the Company for newspapers, television, radio, and other media, excluding catalog preparation and distribution costs, was $278 million in 1979, compared with $285 million in 1978.

Interest expense increased to $254 million in 1979 from $208 million in 1978 principally due to higher interest rates. The following table shows the principal components of interest expense:

(In millions)	**1979**	1978
Discount on customer receivables sold to J.C.Penney Financial Corporation	**$301**	$219
Interest on advances from J.C.Penney Financial Corporation	**7**	16
Interest on long term debt	**36**	35
Interest imputed on capital leases	**23**	23
Other interest, net	**9**	4
	376	297
Less		
Income before income taxes of J.C.Penney Financial Corporation	**111**	83
Capitalized interest on construction in progress	**11**	6
	122	89
Interest expense	**$254**	$208

Capitalized interest is computed by applying the average rate for borrowings of J.C.Penney Financial Corporation to the average cost of construction in progress. If interest had not been capitalized, net income would have been reduced $6 million in 1979 and $3 million in 1978.

Interest Expense (Dollars in millions)



Income tax expense was as follows:

(In millions)	**1979**	1978
Current		
Federal	**$ 76**	$117
State and local	**8**	15
	84	132
Deferred		
Federal	**74**	72
State and local	**8**	8
	82	80
Total income tax expense	**$166**	$212
Effective tax rate on income before income taxes and other unconsolidated subsidiaries	**43.2%**	45.7%

Deferred taxes arise principally from deferred gross profit on the balances due on installment sales, accelerated depreciation, and the accounting for capital leases.

The effective tax rate differed from the Federal income tax statutory rates as detailed below:

	1979		1978	
	Amount (In millions)	Per cent of pre-tax income	Amount (In millions)	Per cent of pre-tax income
Federal income tax statutory rate	**$176**	**46.0**	$222	47.9
Investment credits	**(17)**	**(4.5)**	(20)	(4.3)
State and local income taxes, less Federal income tax benefit	**9**	**2.2**	12	2.4
Other	**(2)**	**(.5)**	(2)	(.3)
Total income tax expense	**$166**	**43.2**	$212	45.7

Taxes other than income taxes, over half of which were payroll taxes, totaled approximately $220 million in 1979 and in 1978.

Rent expense for real and personal property increased to $289 million in 1979 from $286 million in 1978.

The Company conducts the major part of its operations from leased premises including retail stores, distribution centers, warehouses, offices, and other facilities. Almost all leases will expire during the next 30 years; however, leases are usually renewed or replaced by leases on other premises.

The components of rent expense were as follows:

(In millions)	1979	1978
Minimum rent on operating leases	**$183**	$169
Other occupancy costs including rent based on sales	**106**	117
Total	**$289**	$286

Minimum annual rents under noncancellable operating leases and the present value of the total commitment are as follows:

(In millions)	Operating leases
1980	$ 174
1981	164
1982	156
1983	150
1984	146
Thereafter	1,918
Total	$2,708
Present value	$ 900

Savings and retirement plans' expenses were as follows:

(In millions)	1979	1978
Pension	**$55**	$49
Savings and profit-sharing	**23**	23
Total	**$78**	$72

JCPenney's principal pension plan, which is noncontributory, covers substantially all United States employees who have completed 1,000 or more hours of service within a period of 12 consecutive months. Current pension costs are funded annually as incurred, and at year end 1979, based upon market valuation of investments, all vested benefits were fully funded.

Effective in 1978, the Company adopted an unfunded, noncontributory, supplemental retirement plan for certain management employees. The actuarially determined liability is being amortized over a 30 year period.

During 1979, the Company increased benefits payable to certain retired employees through a pension supplement. This increase added $2 million to pension costs in 1979.

The unfunded actuarial liability for all pension and retirement plans at year end was $172 million.

The savings and profit-sharing plan encourages savings by employees through the allocation of 4-1/2 per cent of the Company's available profits, as defined in the plan, to participants who make deposits under the plan. The eligibility requirement is the same as that under the Company's principal pension plan.

Condensed financial statements of the principal retirement plans follow:

Balance sheet

	Savings and profit-sharing		Pension	
	December 31		December 31	
(In millions)	**1979**	1978	**1979**	1978
Assets				
JCPenney common stock at market value: 9.0 million shares in 1979; 7.5 million shares in 1978 (cost: $381 in 1979 and $349 in 1978)	**$234**	$228	**$ —**	$ —
Funds with insurance companies	**111**	104	**—**	—
Other investments at market value (cost: 1979, $14 and $227, respectively; 1978, $17 and $184, respectively)	**15**	17	**245**	185
Other assets, net	**21**	22	**35**	24
	$381	$371	**$280**	$209
Liabilities and equity				
Estimated liability for pensions	**$ —**	$ —	**$280**	$209
Participants' equity in savings and profit-sharing plan	**381**	371	**—**	—
	$381	$371	**$280**	$209

Statement of changes in retirement plans' assets

	Savings and profit-sharing		Pension	
	December 31		December 31	
(In millions)	**1979**	1978	**1979**	1978
Total assets at January 1	**$371**	$364	**$209**	$166
Company contributions	**23**	23	**41**	36
Participants' contributions	**47**	49	**—**	—
Dividends, interest, and other income	**23**	18	**18**	9
Market appreciation (depreciation) of investments	**(35)**	(37)	**16**	2
Benefits paid	**(48)**	(46)	**(4)**	(4)
Total assets at December 31	**$381**	$371	**$280**	$209

Store Space Opened in 1979

City, state, shopping center	Gross square feet of store space (In thousands)
JCPenney stores	
First Quarter	
*Lynden, Washington (Fairway)	11
Bangor, Maine (Bangor)	99
*Burley, Idaho (Burley)	22
Phoenix, Arizona (Paradise Valley)	159
*La Grange, Georgia (W. Georgia Commons)	62
*Bedford, Indiana (Stone City Plaza)	39
*Abilene, Texas (Abilene)	101
*Carlisle, Pennsylvania (Carlisle Plaza)	39
*Del Rio, Texas (Plaza Del Sol)	39
*Ukiah, California (Pear Tree)	39
*Rochester, New Hampshire (Lilac)	39
*McKinney, Texas (Westgate)	16
*Huntington, Indiana (Huntington Plaza)	23
*Marshall, Missouri (Marshall Plaza)	15
Second Quarter	
Enterprise, Alabama (Enterprise)	39
*Natchez, Mississippi (Natchez)	48
*Pampa, Texas (Pampa)	34
Holyoke, Massachusetts (Holyoke / Ingleside)	159
*Chicago, Illinois (Brickyard)	209
*Peru, Illinois (Peru)	65
*Monroe, North Carolina (Monroe)	39
Third Quarter	
Batavia, New York (Genesee County)	38
Bennington, Vermont (Bennington Square)	39
Dallas, Texas (Prestonwood)	183
*Fargo, North Dakota (West Acres)	149
*Hammond, Louisiana (Hammond Square)	63
*Wilmington, North Carolina (Independence)	106
*Auburn, Maine (Auburn)	102
*Greenwood, South Carolina (Cross Creek)	62
*New Bern, North Carolina (Twin Rivers)	73
Reno, Nevada (Meadowood)	160
*Bowling Green, Kentucky (Greenwood)	73
*Brookings, South Dakota (University)	22
*Warren, Pennsylvania (Warren)	34
*Moscow, Idaho (Palouse Empire)	39
*Lawton, Oklahoma (Central)	103
Laurel, Maryland (Laurel Centre)	145
Leadington, Missouri (St. Francois Plaza)	39
*Cedar Rapids, Iowa (Westdale)	155
*Benton Harbor, Michigan (The Orchards)	107
*Hibbing, Minnesota (Irongate)	39
Milledgeville, Georgia (Hatcher Square)	34
*West Mifflin, Pennsylvania (Century III)	160
Fourth Quarter	
*Joliet, Illinois (Louis Joliet)	161
*Marshfield, Wisconsin (Northway)	52
*Moline, Illinois (South Park)	160
Plantation, Florida (Broward)	160
*Sterling, Colorado (Fair)	22
*Tallahassee, Florida (Governor's Square)	156
*Oxnard, California (Twin Centers)	117
*Canton, Illinois (Fulton Square)	34
*Centralia, Illinois (Fairview Park Plaza)	34
*Missoula, Montana (Southgate)	72
*Palestine, Texas (Palestine)	34
*Washington, Missouri (Washington Square)	39
*Alton, Illinois (Alton Square)	158
Las Vegas, Nevada (The Meadows)	155
Mishawaka, Indiana (University Park)	159
Burton, Michigan (Eastland)	69
*Columbus, Ohio (Northland)	182
*Flint, Michigan (Genesee Valley)	161
*Rockford, Illinois (Machesney Park)	106
*Bismarck, North Dakota (Kirkwood Plaza)	107
*Cincinnati, Ohio (Eastgate)	158
St. Johnsbury, Vermont (Green Mountain)	35
*San Angelo, Texas (Sunset)	96
	5,648
Belgium (Three stores opened)	341
Drug stores and other (26 stores opened)	271
Gross store space opened	6,260

*Relocation of existing store

Ten Year Operations Summary

	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970
JCPenney full line stores										
Number of stores	**517**	482	456	432	382	351	331	305	267	237
Net selling space (In million sq. ft.)	**45.1**	42.4	40.4	38.4	34.1	31.1	29.0	26.5	22.6	19.3
Sales (In millions)	**$6,785**	6,562	5,486	4,695	4,056	3,535	3,079	2,537	1,970	1,613
Sales per square foot	**$ 157**	160	139	129	125	119	112	103	95	93
JCPenney soft line stores										
Number of stores	**1,166**	1,201	1,230	1,249	1,269	1,292	1,305	1,338	1,373	1,410
Net selling space (In million sq. ft.)	**15.1**	15.3	15.2	15.1	15.2	15.5	15.9	16.9	17.5	18.1
Sales (In millions)	**$2,537**	2,516	2,254	2,144	2,146	2,122	2,051	2,076	2,072	2,117
Sales per square foot	**$ 167**	166	151	145	140	134	124	121	118	115
Catalog										
Number of sales centers	**1,820**	1,622	1,506	1,442	1,363	1,308	1,243	1,131	1,079	1,019
Number of distribution centers	**5**	5	4	3	3	3	2	2	2	2
Distribution space (In million sq. ft.)	**9.6**	9.6	8.0	6.1	6.1	6.1	4.1	4.1	4.1	4.1
Sales (In millions)	**$1,455**	1,212	1,010	848	744	615	509	410	322	261
Belgian stores										
Number of stores	**77**	78	78	78	79	82	85	88	87	92
Net selling space (In million sq. ft.)	**1.9**	1.8	1.8	1.7	1.7	1.7	1.6	1.5	1.2	1.2
Sales (In millions)	**$ 861**	768	625	526	469	397	334	262	208	204
Sales per square foot	**$ 270**	249	214	189	177	147	136	130	118	119
The Treasury stores										
Number of stores	**34**	37	37	37	37	31	25	23	19	13
Net selling space (In million sq. ft.)	**3.2**	3.6	3.6	3.6	3.6	3.1	2.6	2.4	2.0	1.4
Sales (In millions)	**$ 418**	409	329	289	304	255	222	183	158	98
Sales per square foot	**$ 124**	114	92	81	85	91	88	86	90	82
Drug stores										
Number of stores	**351**	335	299	271	259	255	239	216	205	189
Net selling space (In million sq. ft.)	**3.0**	2.8	2.4	2.1	1.9	1.7	1.5	1.3	1.2	1.0
Sales (In millions)	**$ 409**	348	298	258	231	191	155	132	112	98
Sales per square foot	**$ 143**	135	142	136	132	121	117	110	111	112

Catalog merchandise sold through catalog sales centers located in the Company's stores is included in the sales of those stores Total catalog sales shown above include sales by catalog sales centers, outlet stores, and mail.

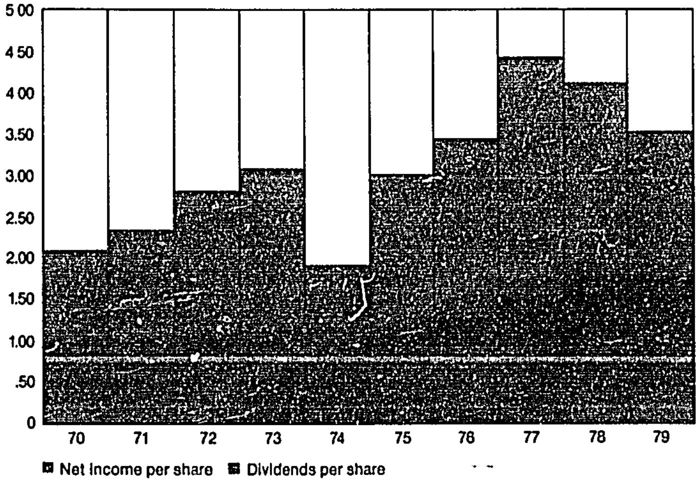
Sales per square foot include only those stores in operation for the full year.

Ten Year Financial Summary

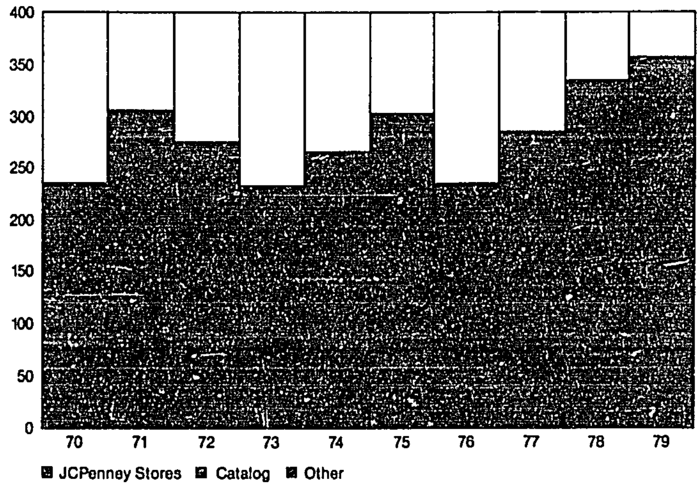
	1979	1978	1977	1976	1975
Results for year (In millions)					
Sales	$ 11,274	10,845	9,369	8,354	7,679
Per cent increase from prior year	4.0	15.8	12.1	8.8	10.7
Credit sales as per cent of sales	43.0	42.2	42.0	40.3	38.9
Costs and expenses excluding interest and depreciation	$ 10,502	10,053	8,612	7,750	7,136
Interest	$ 254	208	130	111	124
Depreciation and amortization	$ 135	119	107	99	91
Income before income taxes and other unconsolidated subsidiaries	$ 383	465	520	394	328
Per cent of sales	3.4	4.3	5.6	4.7	4.3
Income taxes	$ 166	212	247	186	153
Net income	$ 244	276	290	219	181
Per cent increase (decrease) from prior year	(11.6)	(4.8)	31.8	21.4	60.5
Per cent of sales	2.2	2.5	3.1	2.6	2.4
Per cent of stockholders' equity	10.3	13.0	15.5	13.2	13.1
Dividends	$ 122	118	97	81	70
Increase in reinvested earnings	$ 124	157	192	142	105
Capital expenditures and property rights	$ 358	334	285	237	303
Per share results					
Net income—primary	$ 3.52	4.12	4.43	3.44	3.01
—fully diluted	$ 3.51	4.10	4.42	3.43	3.00
Dividends	$ 1.76	1.76	1.48	1.28	1.16
Stockholders' equity	$ 36.16	34.92	32.19	29.11	27.53
Common stock price range					
High	$ 33	43	45	61	63
Low	$ 24	30	32	43	42
Price-earnings ratio					
High	9	9	12	19	38
Low	6	6	9	11	24
Financial position at year end (In millions)					
Assets	$ 5,077	4,833	4,346	3,734	3,482
Working funds	$ 1,475	1,540	1,394	1,226	1,107
Customer receivables					
J.C.Penney Financial Corporation, net of 5 per cent withheld	$ 2,342	2,299	1,748	1,342	1,225
J.C.Penney Company, Inc., net	$ 474	277	462	496	349
Merchandise inventories	$ 1,749	2,046	1,706	1,263	1,191
Long term debt and commitments	$ 836	841	747	687	690
Stockholders' equity					
Beginning of year	$ 2,357	2,118	1,873	1,669	1,382
Conversion of debentures	$ —	—	—	—	—
Stock issued—public offering	$ —	—	—	—	131
Stock issued—employee benefit plans and other	$ 39	82	53	62	51
Increase in reinvested earnings	$ 124	157	192	142	105
End of year	$ 2,520	2,357	2,118	1,873	1,669
Stockholders and employees					
Number of stockholders at year end (In thousands)	86	86	83	78	77
Average number of shares outstanding (In millions)	69	67	65	64	60
Number of employees at year end (In thousands)	206	211	193	183	186

1974	1973	1972	1971	1970
6,936	6,244	5,530	4,812	4,355
11.1	12.9	14.9	10.5	11.3
39.8	39.4	38.7	36.8	36.9
6,503	5,727	5,089	4,441	4,026
155	112	78	64	72
81	71	61	51	41
197	334	302	256	216
2.8	5.4	5.5	5.3	5.0
93	164	150	131	108
113	180	162	132	113
(37.3)	10.9	23.1	16.2	.7
1.6	2.9	2.9	2.7	2.6
8.7	15.8	16.4	17.5	16.6
68	64	60	55	53
45	116	102	77	60
267	233	276	307	233
1.91	3.09	2.81	2.36	2.10
1.91	3.08	2.81	2.33	2.04
1.16	1.11	1.05	1.01	1.00
23.22	22.00	19.57	17.15	13.20
79	101	99	78	62
35	59	67	61	37
25	35	37	33	30
11	19	29	28	18
3,005	2,707	2,422	2,106	1,826
884	798	728	550	489
1,370	1,190	1,043	825	758
87	118	68	47	29
1,219	1,139	1,047	878	790
683	524	495	397	442
1,293	1,138	990	754	682
—	1	15	132	—
—	—	—	—	—
44	38	31	27	12
45	116	102	77	60
1,382	1,293	1,138	990	754
76	75	74	71	69
59	58	58	56	54
193	200	175	162	152

Net Income and Dividends Per Share (Dollars)



Capital Expenditures (Dollars in millions)



Impact of Inflation on Financial Data

The foregoing financial statements and financial review were prepared on the basis of historical costs. Substantial economic changes such as caused by the recent spiraling inflation are not adequately measured by historical cost information. Both the Securities and Exchange Commission (SEC) and the Financial Accounting Standards Board (FASB) have issued disclosure requirements to address the effects of inflation on specific elements of financial statements on an experimental basis. No consensus has been reached as to the usefulness of the data resulting from either of these experiments. Indeed, the SEC requirement will be discontinued next year when a second method prescribed by the FASB will be included in annual reports. The FASB believes that further experimentation must be undertaken to determine the most appropriate means by which preparers and users of financial information can measure the effects of economic changes.

SEC requirement: current replacement cost information. The SEC requires that the Company provide certain information regarding the replacement cost of inventories and productive capacity. Such unaudited information is included in the Company's Form 10-K, copies of which are available upon request.

FASB requirement: constant dollar information. In September 1979, the FASB issued Statement of Financial Accounting Standards No. 33, Financial Reporting and Changing Prices, which specifies reporting requirements for supplementary unaudited information on the impact of inflation on financial data. Statement No. 33 requires disclosure of information on certain costs and net income measured by historical prices in dollars having the same general purchasing power (constant dollars) and the gain or loss in purchasing power measured by the change in the net monetary assets and liabilities after adjustment for inflation. In accordance with Statement No. 33, the Company's reported historical cost financial data are adjusted as follows:

- Historical cost amounts for years prior to 1979 are restated to average 1979 dollars by using the Consumer Price Index for All Urban Consumers (CPI-U). For 1979, sales and costs and expenses except depreciation and amortization, taxes, and the inventory at January 27, 1979, as it impacts cost of goods sold, are assumed to be in average 1979 dollars.
- The historical costs of plant and equipment are increased to constant 1979 dollars, and depreciation and amortization adjusted accordingly.
- No adjustment is made to the historical cost provision for income taxes, which results in an almost 100 per cent income tax rate.
- Cost of goods sold includes a charge for the increase in the historical cost inventory at January 27, 1979, to constant 1979 dollars reduced by the reversal of the LIFO provision for the year.

Alternative: constant dollar information. Inflation in general merchandise prices of a retail enterprise is typically about one-half the CPI-U rate. The Bureau of Labor Statistics (BLS) of the U.S. Government regularly publishes rates of general merchandise price increases. The use of the BLS index to adjust merchandise inventories to constant dollars is shown as an alternative to the CPI-U computations. Another change that the Company believes necessary is to reduce interest expense by the amount of the purchasing power gain. The gain results from net monetary liabilities which will be repaid in funds having less purchasing power than when originally borrowed. This is clearly a reduction in the economic cost of financing the Company's operations and is shown as a reduction of interest expense in the alternate column.

1979 Statement of earnings
Adjusted for general inflation (Constant dollar)

(In millions except per share data)	As reported in financial statements	Adjusted for general inflation (experimental) Required	Alternate
Sales	$11,274	$11,274	$11,274
Costs and expenses			
Cost of goods sold, occupancy, buying, and warehousing costs	7,967	8,125	7,998
Selling, general, and administrative costs	2,535	2,535	2,535
Interest	254	254	116
Depreciation and amortization	135	188	188
Total costs and expenses	10,891	11,102	10,837
Income before income taxes and other unconsolidated subsidiaries	383	172	437
Income taxes	166	166	166
Net income before other unconsolidated subsidiaries	217	6	271
Net income of other unconsolidated subsidiaries	27	28	28
Net income	$ 244	$ 34	$ 299
Net income per share	$ 3.52	$ .49	$ 4.31
Purchasing power gain		$ 138	
Net assets	$ 2,520	$ 3,437	$ 3,437

Five year summary of selected financial data
Adjusted for general inflation (Constant dollar)

	1979	1978	1977	1976	1975
Sales (in millions)					
CPI-U index	$11,274	12,103	11,280	10,727	10,413
BLS index	$11,274	11,474	10,390	9,607	9,215
Dividends per share	$ 1.76	1.96	1.78	1.64	1.57
Common stock price at year end	$ 23	34	39	55	71
Average CPI-U index	219.8	196.9	182.5	171.2	162.1
Per cent increase in CPI-U index	11.6	7.9	6.6	5.6	8.7
Per cent increase in BLS index	5.8	4.9	3.7	4.3	3.5

The Company believes the results of the experiments shown above do not reflect the effects of inflation on JCPenney's financial position and results of operations and no conclusions should be drawn from this information.

However, it is clear that the above statements do not adequately portray the problems involved in financing inflation in working capital, maintaining capacity of plant and equipment, and investing in productivity improvements while at the same time maintaining a proper capital structure. Considerably more education and experience will be required before companies can measure the impact of inflation on financial data in a meaningful and generally understood manner.

Corporate Responsibility

The health and vitality of communities in which JCPenney has facilities and people are essential to the Company's achieving its corporate objectives. Each facility is encouraged to address relevant social and environmental issues and to support organizations which work toward sustaining the community.

Community Involvement

JCPenney encourages its employees to participate in community activities. A Community Service Awards Program recognizes outstanding volunteer work performed on employees' own time. JCPenney also provides opportunities for employees to participate in on-loan and release time activities that will benefit the employees and their communities as well as the Company.

Last year, of some 200 employees nominated for a Community Service Award, 85 were singled out for special commendation. Nine employees served in full-time, on-loan assignments with organizations including the United Way and the National Alliance of Businessmen. Additionally, 205 employees were granted release time averaging two hours per week to work with school programs, chambers of commerce, U.S. Savings Bond campaigns, and community betterment groups.

During 1979, JCPenney completed its "Exercise Trail" community fitness program, having participated in the construction of 718 trails in 49 states and several foreign countries. An estimated 143,000 people use the trails weekly to increase physical fitness. These facilities were built in cooperation with various governmental, educational, and civic organizations.

Contributions

The primary objectives of our charitable contributions program are to promote social conditions favorable to the Company's continued growth and to enhance the quality of life, especially in communities in which there are concentrations of our employees. All Company contributions serve to achieve one or both of these objectives and fall within four broad categories: health and social services, higher education, civic betterment, and cultural activities.

In 1979, charitable contributions were $4.8 million, or 1.2 per cent of pre-tax income, compared with $3.6 million, or .8 per cent, in 1978. Stores and other field facilities contributed approximately 80 per cent of the Company total.

Energy Conservation

Energy conservation continues to be a major concern. Because the JCPenney Energy Management Process, developed internally, has been successful in reducing energy costs in our facilities, we have made a commitment to share our expertise with other businesses and institutions to expand its impact.

On a national level, the Energy Management Process Manual was offered to federal and state governments and to some 10,600 companies which supply JCPenney with merchandise and services. Nearly 2,600 manuals have been distributed. Locally, JCPenney facilities loaned the manual to more than 1,300 companies and institutions.

Minority Economic Development

Our Company is committed to improving the economic position of minority business concerns. In 1979, a Minority Purchasing Advisory Group was established to promote a better understanding of the Company's position and to enhance minority supplier relationships throughout the Company's buying structure in a meaningful and efficient manner.

Purchases of goods and services from minority owned businesses increased to $66 million in 1979 from $43 million in 1978. This represented business relationships with more than 600 suppliers. Additionally, we spent $.7 million for advertising in 92 minority print and broadcast media.

Working bank accounts were maintained with 13 minority owned banks compared with 10 in 1978. Average balances with these banks were approximately $.4 million in both years. At year end, lines of credit with 11 of these banks amounted to $2.2 million, as compared with credit lines with 9 banks totaling $1.8 million in 1978.

Resource Recovery

In 1979, some 170 stores, catalog distribution centers, and other facilities participated in the Company's Resource Recovery Program, up from 145 in 1978. In excess of 16 thousand tons of waste paper were recycled through this program during 1979.

Employment

Year end employment totaled approximately 206,000, of whom 196,389 were employed in the United States, excluding unconsolidated subsidiaries. Summaries based upon the Company's consolidated Employer Information Reports EEO-1 to the United States Equal Employment Opportunity Commission for the years 1979, 1978, and 1977 appear below:

	1979		
Category	Total	Female	Minority
Officials, managers, and professionals	**26,140**	**10,123**	**2,130**
Management trainees	**1,593**	**757**	**332**
Sales workers	**92,570**	**76,531**	**10,513**
Office and clerical workers	**42,081**	**37,706**	**6,178**
Technicians, craftsmen, and operatives	**14,872**	**8,324**	**2,211**
Laborers and service workers	**19,133**	**8,048**	**3,707**
Total	**196,389**	**141,489**	**25,071**

	1978		
Category	Total	Female	Minority
Officials, managers, and professionals	25,932	9,830	1,943
Management trainees	2,556	1,166	440
Sales workers	93,929	76,921	9,482
Office and clerical workers	45,375	40,180	6,098
Technicians, craftsmen, and operatives	14,671	7,883	2,074
Laborers and service workers	19,550	8,237	3,614
Total	202,013	144,217	23,651

	1977		
Category	Total	Female	Minority
Officials, managers, and professionals	23,788	9,014	1,618
Management trainees	1,814	771	342
Sales workers	84,513	68,448	8,196
Office and clerical workers	42,757	38,124	5,590
Technicians, craftsmen, and operatives	13,205	7,061	1,856
Laborers and service workers	18,983	8,035	3,457
Total	185,060	131,453	21,059

J. C. Penney Company, Inc.

Directors

Marshall S. Armstrong[1,3]
Visiting Professor of Accounting, Butler University
Chairman Emeritus, Financial Accounting Standards Board

Louis L. Avner
President, Thrift Drug Company

Kenneth S. Axelson
Senior Vice President

William M. Batten[2,3]
Chairman of the Board, New York Stock Exchange, Inc
Formerly Chairman of the Board, J C Penney Company, Inc

Oscar L. Dunn[3,4]
Retired
Formerly Senior Vice President, General Electric Company and Chairman of the Board, New York Chamber of Commerce and Industry

William M. Ellinghaus[1,4]
President, American Telephone and Telegraph Company

Jack B. Jackson[2,4]
Chairman of the Board, Citizens Bank (Texas)
Formerly President, J C Penney Company, Inc

Vernon E. Jordan, Jr.[2,4]
President, National Urban League

Juanita M. Kreps[4]
Economist and Educator
Formerly United States Secretary of Commerce

Edward J. Mortola[2,4]
President, Pace University

Walter J. Neppl
President

Jane C. Pfeiffer
Chairman of the Board, National Broadcasting Company, Inc

Donald V. Seibert
Chairman of the Board

Walter B. Wriston[1,3]
Chairman, Citicorp and Citibank, N A

Boris Yavitz[1,2]
Dean, Graduate School of Business, Columbia University

Officers

Chairman of the Board

Donald V. Seibert

President

Walter J. Neppl

Senior Vice Presidents

Kenneth S. Axelson
Director of Finance and Public Affairs

William R. Howell
Director of Merchandise, Marketing and Catalog

David F. Miller
Director of JCPenney Stores

Vice Presidents

A Howard Amon, Jr.
Director of Real Estate

Robert Capone
Director of Systems and Data Processing

Francis J. Depkovich
Director of Store and Facilities Planning and Construction Services

Albert W. Driver, Jr.
Secretary and General Counsel

Howard M. Evans
Director of Corporate Marketing

Paul A. Feaman
Director of Distribution

Robert B. Gill
Director of Corporate Personnel

Ralph B. Henderson
Director of Catalog Operations

Galen R. Hogenson
Director of European Operations

Oscar J. Hunter
Director of Corporate Planning and Development

Arthur Jacobsen
Director of JCPenney Financial Services

William R. Johnson
Director of Public Affairs

Paul R. Kaltinick
Director of Technical Support Operations

Thomas J. Lyons
Director of Special Business Operations

Robert E. Northam
Controller

Stanley J. Putman
Director of Corporate Facilities and Services

Ted L. Spurlock
Director of Credit

George M. Stone
Director of Government Relations

John F. Tierney
Director of Merchandise

Regional Vice Presidents

Allan R. Johnson
Western Region

John C. Morgenson
Southwestern Region

Wilburn L. Morris
Eastern Region

Charles R. Steinforth
Central Region

John A. Wells
Southeastern Region

Divisional Vice Presidents

Clifford D. Anderson
Director of Corporate Responsibility

Charles L. Brown
Director of Auditing

J. Alan Ofner
Director of Corporate Personnel Planning

Eugene F. Rowan
Manager of Federal Government Relations

Satenig S. St. Marie
Director of Consumer Affairs

Treasurer

Paull F. Hubbard

Assistant Controllers

Robert O. Amick
Donald F. Herbst

Assistant Secretaries

Cornelius T. Dorans
Archibald E. King, Jr.
J. David Silvers

Assistant Treasurers

William B. Baxter
John B. Hebard

Transfer Agents

J C Penney Company, Inc
Securityholder Services
4301 Lancaster Pike
P O Box 3940
Wilmington, Delaware 19807

Chemical Bank
55 Water Street
New York, New York 10041

Registrars

Chemical Bank
55 Water Street
New York, New York 10041

Wilmington Trust Company
Wilmington, Delaware 19899

Exchange Listings

The New York Stock Exchange
Brussels and Antwerp Stock Exchanges

1 Member of the Audit Committee of the Board of Directors This committee recommends to the Board of Directors the independent auditors to be employed for the purpose of conducting the annual audit of the Company's accounts, discusses with the auditors the scope of their examination, reviews the Company's financial statements and the auditors' report with Company personnel and the auditors, determines whether the auditors have received all the explanations and information they had requested, and invites the recommendations of the auditors regarding internal controls and other matters The Audit Committee is composed entirely of outside directors

2 Member of the Corporate Responsibility Committee This committee identifies, analyzes, and brings to the attention of the Board social and environmental trends and public policy issues which may have a potential impact on the business performance and investment character of the Company It assures that Company policy and performance reflect a sensitivity toward the social and physical environments in which the Company does business and that such policy and performance are in accord with the public interest The committee is composed entirely of outside directors.

3 Member of the Committee on Directors. This committee makes recommendations to the Board with respect to the size, composition, and functions of the Board of Directors, the qualifications of directors, candidates for election as directors, and the compensation of directors. Only outside directors serve on this committee

4 Member of the Personnel and Compensation Committee. This committee reviews the Company's profit incentive and equity compensation plans, makes recommendations in areas concerning personnel relations, and takes action with respect to the compensation of Company officers who are directors. It is also the committee which acts under certain of the Company's stock and incentive compensation plans This committee consists entirely of outside directors

Printed in U.S A

Supplemental Information

Copies of the Company's Form 10-K annual report for 1979 to the Securities and Exchange Commission and consolidated Employer Information Reports EEO-1 for 1979 year end to the United States Equal Employment Opportunity Commission will be made available upon request to:

Ms. Sylvia A. Dresner
J. C. Penney Company, Inc., Public Information
1301 Avenue of the Americas, New York, New York 10019
Phone: (212) 957-8170

Copies of J. C. Penney Financial Corporation's annual report are available from:

Mr. Philip G. Rickards
J. C. Penney Financial Corporation
P.O. Box 3999, Wilmington, Delaware 19807
Phone: (302) 652-3801

Inquiries about your stockholder record should be forwarded to:

Mr. Alfred C. Riley
J. C. Penney Company, Inc
Securityholder Services
P.O. Box 3940, Wilmington, Delaware 19807
Phone: (302) 995-2284

Prices of apparel and home furnishings shown in this Report:

Front cover	
*Camel jacket	$110.00
*Topper	$ 89.00
Quilted vest	$ 12.00
Chenille sweater	$ 8.00
Hot Dog jeans	$ 9.00

Pages 4 and 5	
*Coat	$ 99.00
Gray flannel blazer	$ 56.00
Gray flannel pants	$ 25.00
Striped blouse	$ 15.00
*Navy blazer	$ 56.00
*Crew neck sweater	$ 16.00
Kilt	$ 20.00
White blouse	$ 8.00

Pages 6 and 7	
*Harris Tweed jacket	$ 99.00
Gray slacks	$ 37.50
*Button-down shirt	$ 14.00
*Plain Pocket shirt	$ 13.50
*Fox sweater	$ 20.00
*Action Master slacks	$ 18.00

Pages 8 and 9	
*Body Lingo top	$ 9.00
*Body Lingo jeans	$ 16.00
Hot Pursuit sweatshirt	$ 7.50
Hot Pursuit top	$ 6.00
Hot Pursuit pants	$ 6.50
Sesame Street top	$ 4.50
Sesame Street pants	$ 8.00

Pages 10 and 11	
America's Wildflowers	
*Lamp	$ 65.00
*Twin comforter	
East coast	$ 32.00
West coast	$ 35.00
*Pillow sham	
East coast	$ 15.00
West coast	$ 17.00
*Twin sheet	$ 7.99
*Standard pillow case (package of two)	$ 6.99
Bath towel	$ 6.00
Wastepaper basket	$ 10.00
Tissue holder	$ 6.00
Tumbler	$ 2.00
Soap dish	$ 1.75
*Wallpaper (double roll)	$ 13.98
*Percale pillow cases (package of two)	$ 6.49
*Terry suede bath towel	$ 4.50
Posture Ultimate mattress and twin box spring	$400.00

Pages 12 and 13	
*USA Baseball cap	$ 3.99
*USA Sweatshirt	$ 7.99
*USA Shorts	$ 6.99
Derby Star roller skates	$ 38.99
Leach shirt	$ 9.00
Leach racquet	$ 16.99
Shorts	$ 8.00
*USA Olympics shoes	$ 25.99

Rear cover	
Fair Isle sweater	$ 10.00
*Painter's pants	$ 9.50
Hooded sweatshirt	$ 7.50
*Applique jeans	$ 8.00

*Available in Catalog